Joint Committee on Taxation
September 6, 1985
JCX-16-85

INCREASE IN THE PUBLIC DEBT LIMIT

(Scheduled for a public hearing by the Subcommittee on Taxation and Debt Management of the Committee on Finance on September 10, 1985)

A. Public Debt Limit (H.J. Res. 372)

Present law

The permanent limit on the public debt is $1,823.8 billion. It was enacted on October 13, 1984 (P.L. 98-475).

House action

H.J. Res. 372, which would increase the debt limit to $1,847.8 billion on enactment and to $2,078.7 billion on October 1, 1985, was deemed passed by the House of Representatives on August 1, 1985, after the Conference Report on the Budget Resolution (S. Con. Res. 32) was approved by the Congress.

Current situation

At the close of business on Wednesday, September 4, 1985, the outstanding public debt subject to limit was $1,824 billion. The operating cash balance at that time was $8.96 billion.

Treasury has indicated its belief that the current debt limit will meet its needs to September 30, 1985. The present operating cash balance is below the Treasury's preferred level of $25 billion. Although the level may decline below the present level between now and mid-September, the cash balance tends to increase to $35-$40 billion after September 15 because of receipt of quarterly estimated corporate and individual income tax payments.

Administration and congressional proposals

Estimated public debt limit levels	Billions of dollars Through fiscal years 1985	1986
Administration estimate[1]	1,840.6	2,073.4
H.J. Res. 372: Conforms with Conference Report on budget resolution (S. Con. Res. 32)	1,847.8	2,078.7

J86-55
S362-37

Related unified budget deficits

Administration estimate[1]	211.3	177.8
Conference Report on budget resolution (S. Con. Res. 32)	209.8	171.9

[1]OMB, Mid-Session Budget Review, August 30, 1985, p. 39.

On September 30, 1985, Treasury will credit the Civil Service Retirement trust fund with its annual lump sum appropriation--about $16 billion this year--which must be invested in public debt securities. On October 1, similar investments must be made of the federal contributions to the military retirement trust fund ($10.0 billion) and federal supplementary medical insurance trust fund ($1.8 billion). In addition, an advance of estimated social security October receipts is to be deposited in the OASDI trust fund in the form of federal securities on October 1.

The required investments and normalized tax transfer to OASDI trust funds will require $40.2 billion in borrowing authority. If the debt limit is not increased by September 30, the two retirement trust funds and the medical insurance trust fund will lose interest earnings on the amounts to be invested during the period when the investments cannot be made.

B. Other Issue

Treasury probably will call to the Committee's attention the need to increase long-term bond authority above the present limit of $200 billion. At the current rate of issuing long-term bonds for sale to the public, the $200 billion authority may be exhausted in the first quarter of 1986.

P.L. 98-302 (enacted on May 25, 1984) provided an increase of $50 billion in the long-term bond authority, raising the limit on this authority from $150 billion to $200 billion. Under this authority, the Treasury may issue the specified amount of bonds at interest rates above the statutory ceiling of 4-1/4 percent. The limitation applies only to bonds held by the public, i.e., holdings of Federal agencies and the Federal Reserve Banks are not included in the limit. A bond is defined as a debt obligation of the United States that has a maturity when issued which is longer than 10 years.